

Message Text

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TO AMEMBASSY LONDON

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AMEMBASSY FREETOWN

C O N F I D E N T I A L STATE 034103

EXDIS

E.O. 11652: GDS

TAGS: PFOR, ETRD

SUBJECT: US POLICY ON COFFEE NEGOTIATIONS AND INDEXATION

REF: LONDON 1686

1. REPEATED BELOW FOR YOUR INFORMATION IS SECTION OF

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JANUARY 27 LETTER FROM SECRETARY TO BRAZILIAN FOREIGN

MINISTER DEALING WITH COFFEE:

2. QUOTE: AS TO THE PROSPECTS FOR A NEW INTERNATIONAL COFFEE AGREEMENT, I AM PLEASED TO NOTE THAT YOUR ANALYSIS OF THE BASIC NEEDS OF PRODUCERS AND CONSUMERS IN MANY IMPORTANT RESPECTS PARALLELS MY OWN. I SHARE YOUR VIEW THAT OUR TWO COUNTRIES--THE LARGEST EXPORTER AND THE LARGEST IMPORTER OF THE PRODUCT--MUST INEVITABLY PLAY DECISIVE ROLES IN THE NEGOTIATION AND OPERATION OF A NEW INTERNATIONAL COFFEE AGREEMENT. I CAN ASSURE YOU THAT OUR COFFEE POLICY IS GUIDED BY PRINCIPLES OF FLEXIBILITY, DIALOGUE AND INSTITUTIONAL COOPERATION DEVELOPED OVER THE PAST TWELVE YEARS FOR THE BENEFIT OF PRODUCERS AND CONSUMERS ALIKE.

3. THE UNITED STATES RECOGNIZES THE VITAL ROLE OF COFFEE IN THE FOREIGN TRADE OF THE PRODUCING COUNTRIES AND WE HAVE REPEATEDLY EXPRESSED OUR WILLINGNESS TO PARTICIPATE IN NEGOTIATIONS FOR A NEW AGREEMENT WHENEVER

OTHER MEMBERS OF THE INTERNATIONAL COFFEE ORGANIZATION ARE READY. I MADE THIS POINT AT TLATELOLCO.

4. WE WELCOME BRAZIL'S INITIATIVE IN FOCUSING OUR ATTENTION ON WHAT IT PERCEIVES AS THE TWO CRUCIAL POINTS OF A NEW AGREEMENT: PRICES AND SECURITY OF SUPPLY.

5. QUITE FRANKLY, ON THE PRICE ISSUE, I CANNOT ENCOURAGE YOU TO BELIEVE THAT THE UNITED STATES OR OTHER MAJOR CONSUMING NATIONS WILL ACCEPT THE CONCEPT OF AUTOMATIC INDEXATION OF PRICES AS A DEVICE TO MAINTAIN THE "REAL" VALUE OF COFFEE EXPORTS. THIS ISSUE OF PRICE INDEXATION HAS BEEN RAISED ON A THEORETICAL BASIS IN A NUMBER OF INTERNATIONAL FORA AND IS UNDER ACTIVE CONSIDERATION IN THE UNCTAD. IT IS NOT, THEREFORE, IN MY VIEW AN ISSUE WHICH CAN BE OR NEED BE RESOLVED IN THE CONTEXT OF AN INTERNATIONAL COFFEE AGREEMENT. HOWEVER, THIS IS NOT TO SAY THAT IN NEGOTIATIONS FOR A NEW COFFEE AGREEMENT WE CANNOT TAKE INTO ACCOUNT THE CONCERNS WHICH YOU EXPRESS IN YOUR LETTER AND ATTEMPT TO RESOLVE

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THEM IN A MANNER ACCEPTABLE TO BOTH PRODUCERS AND CONSUMERS. I UNDERSTAND SEVERAL PROPOSALS HAVE BEEN ADVANCED IN THE ICA WORKING GROUP WHICH OFFER THE POSSIBILITY OF RESOLVING THE PRICE ISSUE.

6. ON SECURITY OF SUPPLY, WE THINK SEVERAL OF THE PROPOSALS CURRENTLY BEING DISCUSSED BY THE ICA WORKING GROUP IN LONDON SHOW PROMISE OF MEETING MAJOR CONCERNS

OF CONSUMING COUNTRIES. END QUOTE.

7. RELEVANT PORTION OF FOREIGN MINISTER SILVEIRA'S LETTER, DATED JANUARY 10, TO SECRETARY IS AS FOLLOWS

8. QUOTE: ALSO WORRYING ME IS THE PROBLEM OF THE NEGOTIATION OF THE INTERNATIONAL COFFEE AGREEMENT, STILL IN ITS PRELIMINARY STAGE.

9. IT DEALS NOT ONLY WITH A SUBJECT THAT SERIOUSLY AFFECTS THE ECONOMY OF BRAZIL AND OF SOME FORTY OTHER DEVELOPING COUNTRIES, BUT ALSO WITH AN IMPORTANT TEST OF FUTURE RELATIONS BETWEEN COUNTRIES WHICH EXPORT RAW MATERIALS AND THOSE WHICH IMPORT THEM.

10. THE CRUCIAL POINTS ARE, NATURALLY, THAT CONCERNING PRICES, WHICH IS BECOMING MORE IMPORTANT IN VIEW OF THE PRESENT PICTURE OF GENERALIZED INFLATION AND EXCHANGE INSTABILITY, AND THAT REGARDING SECURITY OF SUPPLY.

11. IN VIEW OF THE WORLD ECONOMIC PREDICAMENT AND THE RECENT EVENTS IN THE FIELD OF INTERNATIONAL TRADE IN PRIMARY PRODUCTS, IT DOES NOT SEEM REALISTIC TO EXPECT THAT THE EXPORTING COUNTRIES WILL ACCEPT AN INSTRUMENT THAT DOES NOT ASSURE SUBSTANTIAL STABILITY FOR PRICES OF THE PRODUCT AT A SATISFACTORY LEVEL AND CALIBRATED IN REAL TERMS.

12. ON THE OTHER HAND, I RECOGNIZE THAT THE PRESENT PRE-OCCUPATIONS WITH THE PROBLEM OF SUPPLY OF RAW MATERIALS MAKES DIFFICULT THE NEGOTIATION OF AN AGREEMENT THAT DOES NOT ASSURE AVAILABILITY OF REAL COFFEE IN CONTRAST WITH MERE EXISTENCE OF QUOTAS.

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13. SUCH IDEAS DEPART SUBSTANTIALLY FROM WHAT UNTIL NOW HAS BEEN DONE REGARDING AGREEMENTS CONCERNING BASIC PRODUCTS BUT INTERNATIONAL CIRCUMSTANCES AS WELL AS THE SUPPLY AND DEMAND POSITION OF COFFEE MAKE A CHANGE OF FOCUS INDISPENSABLE.

14. THE TOPIC ASSUMES CONSIDERABLE RELEVANCE, INASMUCH AS IT DEALS WITH THE FIRST NEGOTIATION OF AN IMPORTANT AGREEMENT CONCERNING BASIC PRODUCTS SINCE THE SO-CALLED PETROLEUM CRISIS. OUR COUNTRIES -- THE PRINCIPAL EXPORTER AND PRINCIPAL IMPORTER OF COFFEE -- WILL INEVITABLY PLAY DECISIVE ROLES IN IT. IT SEEMS TO ME, THEN, IMPORTANT TO KNOW YOUR THOUGHTS ABOUT THE POLITICAL POSITION OF THE SUBJECT BEFORE THE SPECIALIZED SECTORS

ON BOTH SIDES PASS ON TO THEIR MORE DETAILED DISCUSSIONS.
END QUOTE. INGERSOLL

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